

City of Lowell

Lowell, Michigan

Financial Statements

For the Year Ended June 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Lowell	County Kent
Fiscal Year End 06/30/06	Opinion Date 10/19/06	Date Audit Report Submitted to State 12/29/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Biggs, Hausserman, Thompson & Dickinson PC		Telephone Number 616-642-9467	
Street Address 356 E Main		City Saranac	State MI
Zip 48881			
Authorizing CPA Signature 		Printed Name Steven R Thompson	
		License Number 1101012375	

October 19, 2006

City of Lowell
Lowell, Michigan 48849

We have audited the financial statements of the City of Lowell for the year-ended June 30, 2006, and have issued our report thereon dated October 19, 2006.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Lowell. Such considerations were for the purpose of determining our audit procedures and to report on internal control in accordance with Government Auditing Standards and not to provide an assurance concerning such internal control system.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Lowell's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on overall compliance with such provisions.

The following comments and recommendations relate to certain of the City's accounting, financial and administrative policies and procedures that we observed during the course of our audit. These matters are not considered "reportable conditions" as defined by professional standards.

RECONCILIATION PROCESSES

1. We recommend that a more thorough review be made of key accounts on a monthly basis. Some accounts have needed adjustment during audit time over the past few years.

2. In an effort to help with cash reconciliations, we recommend reinstituting the Investment Fund as an internal fund of the City. This fund and procedures previously in affect proved helpful in reconciling the various funds of the City.
3. We also recommend that standard journal entries be reviewed for appropriateness.
4. In light of continued budgetary constraints on the City, it will be important for these processes to function properly in order to provide accurate accounting information for both budget monitoring and budget preparation.

NEW AUDIT STANDARDS

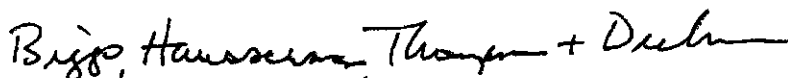
1. Recently, 10 new auditing standards have been released and will become effective over the City's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the City beginning with the June 30, 2007 year end.

These new standards relate to the dating of the auditor's report with the requirement to obtain the client's approval of draft financial statements; the other relates to evaluating the City's ability to produce its own financial statements, including footnotes.

This report is intended for the information and use of the City of Lowell of Lowell, management and others within the organization.

We appreciate the cooperation received from the finance director during our engagement and the opportunity to be of service to the City. We would be happy to answer questions or discuss any of the above comments and recommendations. If we can be of any further assistance in implementing any recommendations, please let us know.

Very truly yours,



BIGGS, HAUSSERMAN, THOMPSON & DICKINSON, P.C.
Certified Public Accountants

City of Lowell

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Independent Auditor's Report

Honorable Mayor and
Members of the City Council
City of Lowell, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lowell, Michigan, as of and for the year ended June 30, 2006 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lowell, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lowell Light and Power and Lowell Cable Television, which represent 64 percent, 61 percent, and 80 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lowell Light and Power and Lowell Cable Television, is based on the report of the other auditors.

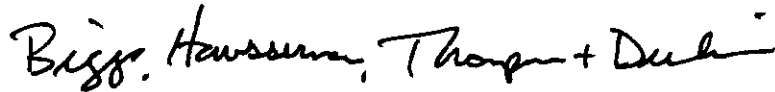
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lowell, Michigan as of June 30, 2006, and respective changes in financial position and cash flows, where applicable, thereof for the year then ended and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006 on our consideration of the City of Lowell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Lowell's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Lowell's basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Biggs, Hausserman, Thompson + Dickinson".

Biggs, Hausserman, Thompson & Dickinson, P.C.
Certified Public Accountants
October 19, 2006

Management's Discussion and Analysis

Management Discussion and Analysis

As management of the City of Lowell, we offer readers of the City of Lowell financial statements this narrative overview and analysis of the financial activities of the City of Lowell for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

2006 was a year of significant activity at the City including:

- Reconstruction of portions of Grindle Drive
- Purchase of a new building for Light and Power and Cable Television
- With a State grant, acquisition of a new fingerprinting equipment
- A water and sewer rate study was conducted with rates being adjusted accordingly, effective during the latter part of the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Lowell financial statements. The City of Lowell basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Lowell finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the city of Lowell assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lowell that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Lowell include public safety, highways, public works, and general government services. The business-type activities of the City of Lowell include wastewater, water, airport, cable T.V. and light and power services.

The government-wide financial statements include not only the City of Lowell itself (known as the *primary government*), but also legally separate – (the building authority – component unit) – for which the City of Lowell is financially accountable. Financial information for this *component unit* is blended with the City as both a capital projects and a debt service fund. This report also includes information for Downtown Development Authority also legally separate (component unit) – for which the City of Lowell is financially accountable. Financial information for this *component unit* is discretely presented.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lowell, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Lowell can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Lowell maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, which is considered to be a major fund. Data from the other six governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Lowell adopts an annual appropriated budget for its general and special revenue finds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary funds. The City of Lowell maintains seven different proprietary funds. Five *enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City also has two internal services funds to account for those services provided internally on a cost reimbursement basis. The internal services funds are included in the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater, water, airport, cable T.V. and light and power funds, all of which are considered to be major funds of the City of Lowell.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Lowell's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discuss and analysis.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lowell, assets exceeded liabilities by \$13,277,307 at the close of the most recent fiscal year.

By far the largest portion of the City of Lowell net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City of Lowell uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Lowell investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 693,832	\$ 720,486	\$ 4,801,119	\$ 6,376,354	\$ 5,494,951	\$ 7,096,840
Capital assets	6,786,844	6,619,768	15,689,852	14,731,553	22,476,696	21,351,321
Total assets	<u>7,480,676</u>	<u>7,340,254</u>	<u>20,490,971</u>	<u>21,107,907</u>	<u>27,971,647</u>	<u>28,448,161</u>
Long-term liabilities outstanding	5,638,682	5,475,735	7,608,693	8,008,653	13,247,375	13,484,388
Other liabilities	385,890	370,470	1,061,075	1,050,524	1,446,965	1,420,994
Total liabilities	<u>6,024,572</u>	<u>5,846,205</u>	<u>8,669,768</u>	<u>9,059,177</u>	<u>14,694,340</u>	<u>14,905,382</u>
Net assets:						
Invested in capital assets,						
net of related debt	1,148,162	1,144,033	8,081,159	6,722,900	9,229,321	7,866,933
Restricted	350,514	366,718	540,763	1,521,336	891,277	1,888,054
Unrestricted	(42,572)	(16,702)	3,199,281	3,804,494	3,156,709	3,787,792
Total net assets	<u>\$ 1,456,104</u>	<u>\$ 1,494,049</u>	<u>\$ 11,821,203</u>	<u>\$ 12,048,730</u>	<u>\$ 13,277,307</u>	<u>\$ 13,542,779</u>

Net assets of governmental activities at year-end have been restricted primarily by funding sources for Major Streets, Local Streets, Historic District Commission, and Cemetery Trust Corpus. Of the net asset balance at year end, 79% is invested in capital assets net of related debt, 24% is restricted for other purposes and (3%) is unrestricted and available for general City operations.

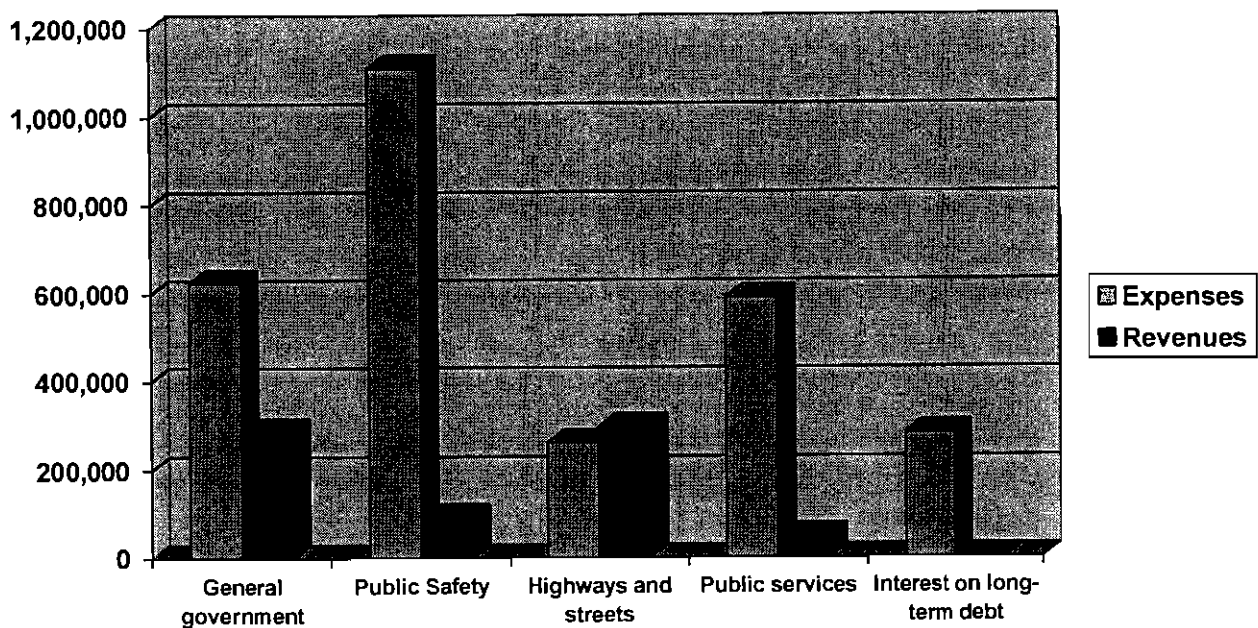
City of Lowell
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
Revenue:	2006	2005	2006	2005	2006	2005
Program revenue:						
Charges for services	\$ 387,546	\$ 200,143	\$ 8,471,690	\$ 7,998,792	\$ 8,859,236	\$ 8,198,935
Operating grants and contributions	336,696	420,816	50,513	63,993	387,209	484,809
General revenue:						
Property taxes	1,632,482	1,550,016	0	0	1,632,482	1,550,016
State shared revenue	405,384	409,769	0	0	405,384	409,769
Other	67,767	289,121	174,325	173,222	242,092	462,343
Total revenue	<u>2,829,875</u>	<u>2,869,865</u>	<u>8,696,528</u>	<u>8,236,007</u>	<u>11,526,403</u>	<u>11,105,872</u>
Governmental activities:						
General government	625,234	612,292	0	0	625,234	612,292
Public safety	1,109,676	1,121,955	0	0	1,109,676	1,121,955
Highways and streets	260,791	224,831	0	0	260,791	224,831
Public services	590,074	530,402	0	0	590,074	530,402
Interest on long-term debt	282,045	263,897	0	0	282,045	263,897
Total expenses - governmental activities	<u>2,867,820</u>	<u>2,753,377</u>	<u>0</u>	<u>0</u>	<u>2,867,820</u>	<u>2,753,377</u>
Business-type activities:						
Airport	0	0	32,585	28,965	32,585	28,965
Light & Power	0	0	6,076,461	5,328,374	6,076,461	5,328,374
Cable T.V.	0	0	1,201,003	1,224,369	1,201,003	1,224,369
Waste Water	0	0	862,725	830,522	862,725	830,522
Water	0	0	751,281	714,295	751,281	714,295
Total expenses- business-type activities	<u>0</u>	<u>0</u>	<u>8,924,055</u>	<u>8,126,525</u>	<u>8,924,055</u>	<u>8,126,525</u>
Changes in net assets	(37,945)	116,488	(227,527)	109,482	(265,472)	225,970
Net assets - beginning of year	1,494,049	1,319,742	12,048,730	11,855,052	13,542,779	13,174,794
Prior period adjustment	0	57,819	0	84,196	0	142,015
Net assets - end of year	<u>\$1,456,104</u>	<u>\$1,494,049</u>	<u>\$11,821,203</u>	<u>\$12,048,730</u>	<u>\$13,277,307</u>	<u>\$13,542,779</u>

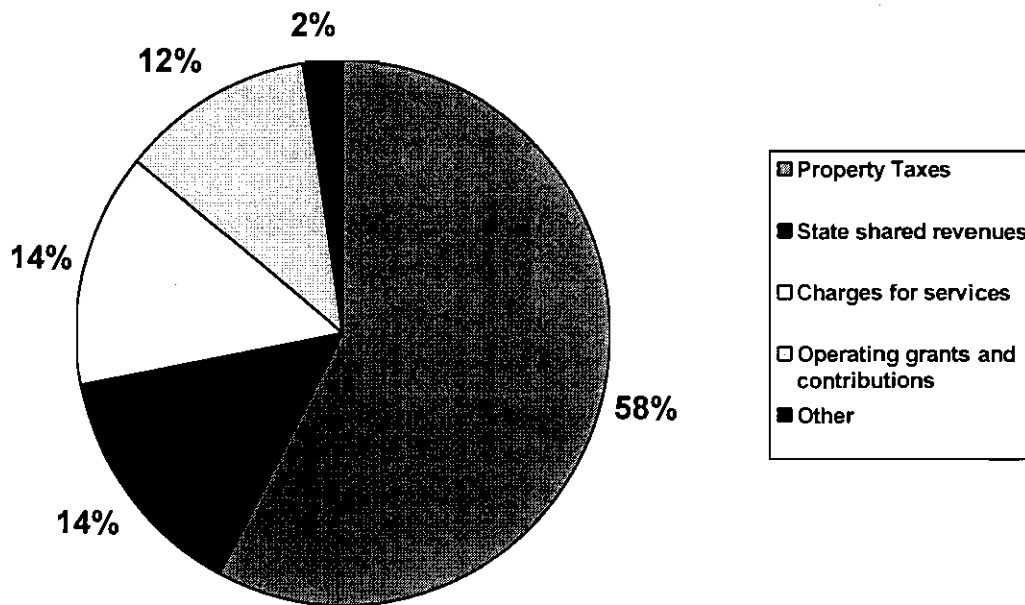
Governmental activities. Governmental activities decreased the City's net assets by \$37,945, accounting for 14% of the total decrease in the net assets of the City. Key elements of this decrease are as follows:

- A reduction in grant revenue compared to previous years and an increase in expenditures in the general fund.
- The timing differences between construction of capital assets and depreciation of the assets over their estimated useful lives.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



Business-type activities. Business-type activities decreased the City's net assets by \$227,527, accounting for a 84% of the total decrease in the government's net assets for the current year. Key elements of this decrease are as follows:

- The Light and Power fund had a decrease in net assets of \$359,941, caused by an increase in purchased programs and power expenses of over \$650,000 compared to 2005. The Wastewater fund had a decrease in net assets of \$152,886. The Water fund showed an increase in net assets of \$225,754.

Financial Analysis of the Government's Funds

As noted earlier, the City of Lowell uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Lowell *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Lowell financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the end of the current fiscal year, the City of Lowell's governmental funds reported combined ending fund balance of \$389,980, a decrease of \$4,064 compared with prior year. This was due to capital expenditures during the year.

The general fund is the chief operating fund of the City of Lowell. At the end of the current fiscal year, unreserved fund balance of the general fund was \$39,466 which was the same amount as the total fund balance. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 1.8 percent of total general fund expenditures.

The fund balance of the City of Lowell's general fund increased by \$9,998 during the current fiscal year.

Proprietary funds. The City of Lowell's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$3,199,281. The total decrease in net assets for the year was \$227,527. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Lowell's business-type activities.

General Fund Budgetary Highlights

- Significant fluctuations between the original and amended for the year included an increase in state share revenues and an increase in expenditures for public safety.

Capital Asset and Debt Administration

Capital assets. The City of Lowell's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounts to \$22,476,696 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, road, highways, and bridges. The total increase in the City of Lowell's investment in net capital assets for the current fiscal year was \$1,125,375. The total investment in capital assets was \$1,819,693.

Major capital asset events during the current fiscal year included the following:

- Reconstruction of portions of Grindle Drive
- Purchase of a new building for Light & Power and Cable Television

City of Lowell Capital Assets (net of depreciation)

	Governmental Activities	Business-type Activities	Total
Land	\$ 568,460	\$ 349,838	\$ 918,298
Construction in progress	0	517,086	517,086
Building, equipment and improvements	6,218,384	14,822,928	21,041,312
Total net assets	<u>\$ 6,786,844</u>	<u>\$ 15,689,852</u>	<u>\$ 22,476,696</u>

Additional information on the City of Lowell capital assets can be found in note 4 on pages 38 and 39 of this report.

Long-term debt.

City of Lowell Outstanding Obligations

	Governmental Activities	Business-type Activities	Total
Bonded debt net of discounts	\$ 5,595,000	\$ 7,569,037	\$ 13,164,037
Other obligations	111,516	39,656	151,172
Total net assets	<u>\$ 5,706,516</u>	<u>\$ 7,608,693</u>	<u>\$ 13,315,209</u>

During the year the City financed \$300,000 for street improvements and paid approximately \$529,000 of principal off on debt outstanding at July 1, 2005.

The City of Lowell has a BBB+ rating from Standard & Poor's.

State statutes limit the amount of general obligation debt a government entity may issue to 10% of the entity's total State Equalized Value. The current debt outstanding for the City of Lowell is within the statutory limit.

Economic Factors and Next Year's Budgets and Rates

Revenues

Property Taxes – The General Fund's budgeted property tax, its largest revenue source, is projected to increase 5.9%. The taxable value of existing property, not affected by transfer of ownership or construction of additions, was limited by State Law to the Consumer Price Index.

State Shared Revenue – The General Fund's budgeted state shared revenues are expected to remain steady at \$414,000.

Expenditures

Although the General Fund expenditures are budgeted to remain steady at \$2,443,000, additional factors were considered in the preparation of the budget, as follows:

Compensation for City employees were estimated at a 2.5% increase in wages for each employee.

No staffing changes have been included in the budget. There were no reductions in staff or additions.

Requests for Information

This financial report is designed to provide a general overview of the City of Lowell finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Sue Olin, Treasurer, City of Lowell, 301 E. Main Street, Lowell, Michigan 49331.

City of Lowell

CITY OF LOWELL
STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Current assets:				
Cash and pooled investments	\$ 370,778	\$ 1,000,612	\$ 1,371,390	\$ 143,157
Investments	0	1,083,565	1,083,565	0
Accounts receivable	84,024	1,015,857	1,099,881	0
Due from other governments	181,390	0	181,390	0
Special assessment receivable	5,229	90,676	95,905	0
Inventory	8,052	74,764	82,816	0
Internal balances	44,359	(44,359)	0	0
Prepaid items and other assets	0	40,867	40,867	0
Restricted assets				
Cash and pooled investments	0	805,047	805,047	0
Investments	0	296,134	296,134	0
Non-current assets:				
Advance receivable	0	44,943	44,943	0
Restricted assets				
Cash and pooled investments	0	393,013	393,013	0
Capital assets				
Land	568,460	349,838	918,298	67,876
Buildings, equipment and fixture, net	6,218,384	14,822,928	21,041,312	863,185
Construction in progress	0	517,086	517,086	0
Total assets	7,480,676	20,490,971	27,971,647	1,074,218
Liabilities				
Current liabilities:				
Accounts payable	125,541	597,517	723,058	645
Accrued liabilities	81,317	210,174	291,491	3,248
Accrued compensated absences	83,106	69,582	152,688	0
Due to other governmental units	45,512	0	45,512	0
Customer deposits	0	178,564	178,564	0
Deferred revenue	50,414	5,238	55,652	0
Noncurrent liabilities:				
Due within one year	172,549	436,106	608,655	135,000
Due in more than one year	5,466,133	7,172,587	12,638,720	1,220,000
Total liabilities	6,024,572	8,669,768	14,694,340	1,358,893
Net assets				
Invested in capital assets, net of related debt	1,148,162	8,081,159	9,229,321	(423,939)
Restricted for:				
Major Streets	29,851	0	29,851	0
Local Streets	754	0	754	0
Historic District Commission	55,806	0	55,806	0
Debt Service	4,230	540,763	544,993	0
Emergency purchases	0	0	0	0
Cemetery trust corpus	259,873	0	259,873	0
Programs	0	0	0	0
Unrestricted	(42,572)	3,199,281	3,156,709	139,264
Total net assets (deficit)	\$ 1,456,104	\$ 11,821,203	\$13,277,307	\$ (284,675)

CITY OF LOWELL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Component Unit Downtown Development Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Net (Expense) Revenue	
Primary Government								
Governmental Activities:								
Public safety	\$ 625,234	\$ 283,103	\$ 3,354	\$ 0	\$ (338,777)	\$ 0	\$ (338,777)	\$ 0
Highways and streets	1,109,676	80,580	11,744	405	(1,016,947)	0	(1,016,947)	0
Public services	260,791	0	296,598	0	35,807	0	35,807	0
Interest on long-term debt	590,074	23,863	25,000	0	(541,211)	0	(541,211)	0
Total governmental activities	282,045	0	0	0	(282,045)	0	(282,045)	0
	2,867,820	387,546	336,696	405	(2,143,173)	0	(2,143,173)	0
Business-type activities:								
Airport	32,585	34,673	0	0	0	2,088	2,088	0
Light & Power	6,076,461	5,611,958	0	0	0	(464,503)	(464,503)	0
Cable T. V.	1,201,003	1,248,442	0	0	0	47,439	47,439	0
Wastewater	862,725	693,513	0	0	0	(169,212)	(169,212)	0
Water	751,281	883,104	0	50,513	0	182,336	182,336	0
Total business-type activities	8,924,055	8,471,690	0	50,513	0	(401,852)	(401,852)	0
Total primary government	\$ 11,791,875	\$ 8,859,236	\$ 336,696	\$ 50,918	(2,143,173)	(401,852)	(2,545,025)	0
Component unit activities:								
Downtown Development Authority	\$ 344,473	\$ 0	\$ 0	\$ 0				(344,473)
Total component units	\$ 344,473	\$ 0	\$ 0	\$ 0				(344,473)
General revenues:								
Property taxes								
State shared revenues								
Interest earnings								
Contributions/other								
Total general revenues and transfers								
Changes in net assets								
Net assets (deficit), beginning of year								
Net assets (deficit), end of year								

CITY OF LOWELL
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and pooled investments	\$ 0	\$ 364,504	\$ 364,504
Receivables			
Accounts	77,011	0	77,011
Special assessments	5,229	0	5,229
Due from other governmental units	138,455	42,935	181,390
Due from other funds	68,372	0	68,372
Prepaid expenses	0	0	0
Total assets	\$ 289,067	\$ 407,439	\$ 696,506
Liabilities			
Accounts payable	\$ 95,093	\$ 30,207	\$ 125,300
Accrued liabilities	46,132	2,466	48,598
Due to other funds	0	24,013	24,013
Due to other governments	45,512	0	45,512
Deferred revenue	50,414	0	50,414
Accrued compensated absences	12,450	239	12,689
Total liabilities	249,601	56,925	306,526
Fund balances			
Reserved for:			
Permanent trust	0	264,103	264,103
Programs	0	0	0
Debt service	0	0	0
Unreserved			
Undesignated	39,466	0	39,466
Undesignated reported in special revenue funds	0	86,411	86,411
Total fund balances	39,466	350,514	389,980
Total liabilities and fund balances	\$ 289,067	\$ 407,439	\$ 696,506

CITY OF LOWELL
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2006

Fund balances-total governmental funds	\$ 389,980
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add-capital assets (net)	6,776,514
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An internal service fund is used by management to charge the costs of certain equipment usage and data processing to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add-(loss) net assets of governmental activities accounted for in the internal service fund	26,822
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct-compensated absences payable	(67,834)
Deduct-bonds payable and lease purchases payable	(5,638,682)
Deduct-accrued interest on bonds payable	<u>(30,696)</u>

Net assets of governmental activities	<u><u>\$ 1,456,104</u></u>
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CITY OF LOWELL
GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 1,632,482	\$ 0	\$ 1,632,482
Intergovernmental revenues:			
Federal	405	0	405
State	420,481	290,409	710,890
Charges for services	138,635	0	138,635
Interest income	17,310	11,037	28,347
Charges for perpetual care	0	11,638	11,638
Miscellaneous	285,890	31,189	317,079
Total revenues	2,495,203	344,273	2,839,476
Expenditures			
Current:			
General government	499,892	0	499,892
Public safety	1,033,662	0	1,033,662
Highways and streets	0	214,527	214,527
Public services	510,898	25,844	536,742
Other functions	76,278	547	76,825
Debt service:			
Principal retirement	16,134	110,000	126,134
Interest and fiscal charges	1,250	276,584	277,834
Capital outlay	0	377,924	377,924
Total expenditures	2,138,114	1,005,426	3,143,540
Revenues over (under) expenditures	357,089	(661,153)	(304,064)
Other financing sources (uses)			
Transfers in	17,639	409,730	427,369
Transfers out	(364,730)	(62,639)	(427,369)
Proceeds from loan	0	300,000	300,000
Total other financing sources (uses)	(347,091)	647,091	300,000
Net change in fund balance	9,998	(14,062)	(4,064)
Fund balance, beginning of year	29,468	364,576	394,044
Fund balance, end of year	\$ 39,466	\$ 350,514	\$ 389,980

CITY OF LOWELL

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances-total governmental funds	\$ (4,064)
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.

Add- capital outlay	410,904
Deduct-depreciation expense	(221,753)
Deduct-disposals (net)	(9,601)

Bond proceeds provide current financial resources to governmental funds in
the period issued, but issuing bonds increases long-term liabilities in
the statement of net assets. Repayment of bond principal is an expenditure
in the governmental funds, but the repayment reduces long-term liabilities
in the statement of net assets.

Add-principal payments on long-term liabilities	137,053
Deduct-loan proceeds	(300,000)

An internal service fund is used by management to charge the costs of certain
equipment usage to individual governmental funds. The net revenue (expense)
of the fund attributable to those funds is reported with governmental activities.

Add-income from governmental activities in internal service fund	(45,034)
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Some expenses reported in the statement of activities do not require the use
of current financial resources and therefore are not reported as expenditures in
the funds.

Add-changes in compensated absences	(1,239)
Add-accrued interest	(4,211)

Change in net assets of governmental activities	<u>\$ (37,945)</u>
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CITY OF LOWELL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
AMENDED BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 1,613,079	\$ 1,613,079	\$ 1,632,482	\$ 19,403
Intergovernmental	419,185	426,685	420,887	(5,798)
Charges for services	121,437	126,937	138,634	11,697
Investment income	6,100	16,100	17,310	1,210
Miscellaneous	220,029	249,343	285,890	36,547
TOTAL REVENUES	<u>2,379,830</u>	<u>2,432,144</u>	<u>2,495,203</u>	<u>63,059</u>
EXPENDITURES				
Current				
General government	486,164	497,446	499,891	(2,445)
Public safety	985,532	1,027,703	1,033,662	(5,959)
Public service	500,304	503,904	510,899	(6,995)
Debt service	14,610	14,610	17,384	(2,774)
Other functions	53,500	64,000	76,278	(12,278)
TOTAL EXPENDITURES	<u>2,040,110</u>	<u>2,107,663</u>	<u>2,138,114</u>	<u>(30,451)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>339,720</u>	<u>324,481</u>	<u>357,089</u>	<u>32,608</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	37,000	17,000	17,639	639
Transfers out	(349,165)	(334,730)	(364,730)	(30,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(312,165)</u>	<u>(317,730)</u>	<u>(347,091)</u>	<u>(29,361)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>27,555</u>	<u>6,751</u>	9,998	<u>3,247</u>
FUND BALANCES, BEGINNING OF YEAR			<u>29,468</u>	
FUND BALANCES, END OF YEAR			<u>\$ 39,466</u>	

CITY OF LOWELL
PROPRIETARY FUNDS
COMBINING STATEMENTS OF NET ASSETS

June 30, 2006

ASSETS	Enterprise Funds						Governmental Activities
	WASTEWATER	WATER	AIRPORT	CABLE TV	LIGHT & POWER	TOTAL	INTERNAL SERVICE FUNDS
Current assets							
Cash and pooled investments	\$ 251,676	\$ 321,524	\$ 49,942	\$ 172,003	\$ 205,467	\$ 1,000,612	\$ 6,274
Investments	0	0	0	0	1,083,565	1,083,565	0
Accounts receivable	101,564	99,805	9,876	19,860	784,752	1,015,857	7,010
Special assessments	74,751	15,925	0	0	0	90,676	0
Due from other funds	0	0	0	0	0	0	0
Due from other governmental units	0	0	0	0	0	0	0
Current portion of advance receivable	0	0	0	0	50,666	50,666	0
Inventory	0	73,246	0	0	1,518	74,764	8,052
Prepaid expenses	0	90	0	10,079	30,698	40,867	0
Total current assets	427,991	510,590	59,818	201,942	2,156,666	3,357,007	21,336
Restricted assets							
Cash and pooled investments	202,369	223,661	0	8,785	370,232	805,047	0
Investments	0	0	0	0	296,134	296,134	0
Total restricted assets	202,369	223,661	0	8,785	666,366	1,101,181	0
Non-current assets							
Restricted cash and pooled investments	0	0	0	0	393,013	393,013	0
Advance receivable	0	0	0	0	514,400	514,400	0
Total	0	0	0	0	907,413	907,413	0
Capital assets							
Land	4,500	109,908	36,273	0	199,157	349,838	0
Work in progress	0	0	0	22,644	494,442	517,086	0
Land improvements	0	174,706	172,680	0	0	347,386	0
Buildings and plant	5,180,179	987,184	212,030	2,273,756	15,530,218	24,183,367	0
Machinery and equipment	608,336	682,296	0	0	0	1,290,632	808,695
Improvements other than buildings	1,192,068	4,050,802	0	0	0	5,242,870	0
Less:							
Accumulated depreciation	(4,820,014)	(2,333,779)	(134,446)	(1,748,252)	(7,204,836)	(15,241,327)	(798,362)
Net capital assets	2,165,069	3,671,117	286,537	548,148	9,018,981	15,689,852	10,333
Total assets	\$ 2,795,429	\$ 4,405,368	\$ 346,355	\$ 758,875	\$ 12,749,426	\$ 21,055,453	\$ 31,669
LIABILITIES							
Current liabilities							
Accounts payable	\$ 54,501	\$ 6,710	\$ 0	\$ 64,469	\$ 471,837	\$ 597,517	\$ 241
Accrued liabilities	25,455	39,054	182	32,685	112,798	210,174	2,023
Due to other funds	0	0	15,622	828	27,909	44,359	0
Current portion of advance payable	0	0	0	50,666	0	50,666	0
Customer deposits	0	2,912	2,600	6,765	164,267	178,564	0
Current maturity on long-term debt	140,000	149,000	7,106	0	140,000	436,106	0
Total current liabilities	219,956	197,676	25,510	157,433	916,811	1,517,386	2,264
Non-current liabilities							
Bonds and notes payable net of current	762,770	1,732,364	32,550	0	4,644,903	7,172,587	0
Advances payable	0	0	0	469,457	0	469,457	0
Deferred revenue	0	0	5,238	0	0	5,238	0
Accrued compensated absences	8,048	11,837	0	16,904	32,793	69,582	2,583
Total non-current liabilities	770,818	1,744,201	37,788	486,361	4,877,696	7,716,864	2,583
Total liabilities	990,774	1,941,877	63,298	643,794	5,594,507	9,234,250	4,847
NET ASSETS							
Invested in capital assets, net of related debt	1,262,299	1,789,753	246,881	548,148	4,234,078	8,081,159	10,333
Restricted for debt service	62,369	74,661	(7,106)	0	410,839	540,763	0
Emergency purchase	0	0	0	0	0	0	0
Unrestricted	479,967	599,077	43,282	(433,067)	2,510,000	3,199,281	16,489
Total net assets	\$ 1,804,655	\$ 2,463,491	\$ 283,057	\$ 115,081	\$ 7,154,919	\$ 11,821,203	\$ 26,822

CITY OF LOWELL

PROPRIETARY FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	Enterprise Funds					Governmental Activities
	WASTEWATER	WATER	AIRPORT	CABLE TV	LIGHT & POWER	INTERNAL SERVICE FUNDS
Operating revenues						
Charges for services	\$ 693,213	\$ 878,721	\$ 34,673	\$ 1,248,442	\$ 5,611,958	\$ 167,601
Tap fees	300	4,383	0	0	0	0
Total operating revenues	693,513	883,104	34,673	1,248,442	5,611,958	167,601
Operating expenses						
Treatment	427,966	268,858	0	0	0	0
Transmission and distribution	81,685	176,405	0	63,687	476,167	0
Customer accounts	35,219	35,237	0	0	115,686	0
Administrative and general	34,756	45,765	17,479	482,955	655,344	186,425
Purchased programs and power expenses	0	0	0	568,624	3,781,500	0
Depreciation and amortization	216,573	118,455	12,713	63,871	588,676	12,474
Total operating expenses	798,201	644,720	30,192	1,179,137	5,617,373	198,899
Operating Income (loss)	(104,688)	238,384	4,481	69,305	(5,415)	(31,298)
Non-operating revenues (expenses)						
Interest income	15,816	18,067	1,480	7,459	104,562	1,264
Interest expense	(64,524)	(106,561)	(2,393)	(21,866)	(226,054)	0
Miscellaneous revenue	710	25,351	1,080	0	0	0
Total non-operating revenues (expenses)	(48,198)	(63,143)	167	(14,407)	(121,492)	1,264
Income (loss) before contributions and transfers	(152,686)	175,241	4,648	54,898	(126,907)	(30,034)
Capital contributions						
Transfers out	0	50,513	0	0	0	0
Transfer-Payment in lieu of taxes	0	0	0	0	(233,034)	(15,000)
Change in net assets	(152,686)	225,754	4,648	54,898	(359,941)	(45,034)
Net assets, beginning of year	1,957,541 *	2,237,737 *	278,409	60,183 *	7,514,860 *	71,856 *
Net assets, end of year	\$ 1,804,855	\$ 2,463,491	\$ 283,057	\$ 115,081	\$ 7,154,919	\$ 26,822

See accompanying notes to financial statements.

CITY OF LOWELL
PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES
	WASTEWATER	WATER	AIRPORT	CABLE T.V.	LIGHT & POWER	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from interfund services provided	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 165,663
Receipts from customers and users	668,856	914,889	33,943	1,139,896	5,596,483	8,351,867
Payments to suppliers	(85,081)	(204,088)	(17,489)	(635,683)	(4,128,498)	(5,070,839)
Payments to employees	(499,931)	(354,437)	0	(362,652)	(843,854)	(2,060,874)
Net cash provided by (used in) operating activities	81,644	356,384	16,454	141,561	624,131	1,220,154
CASH FLOWS FROM NON-CAPITAL FINANCING						
Due to other funds	0	0	0	(48,683)	48,683	0
Due from other funds/advances receivable	0	0	0	0	(44,943)	(44,943)
Transfers out	0	0	0	0	(233,034)	(233,034)
Other activities	710	25,351	1,080	(21,866)	0	5,275
Net cash provided by (used in) non-capital financing	710	25,351	1,080	(70,549)	(229,294)	(272,702)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisitions of capital assets	0	(58,723)	(8,456)	(107,755)	(1,789,042)	(1,963,976)
Principal paid on long-term debt/advances	(135,000)	(149,000)	(6,883)	0	(135,000)	(425,883)
Interest paid on long-term debt/advances	(55,082)	(95,521)	(2,393)	0	(222,304)	(375,300)
Proceeds from sale of capital assets/capital contributions	0	50,513	0	0	0	50,513
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(190,082)	(252,731)	(17,732)	(107,755)	(2,146,346)	(2,714,646)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest income	15,616	18,067	1,480	7,459	104,562	147,184
Sale of investments	0	0	0	0	1,158,125	1,158,125
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	15,616	18,067	1,480	7,459	1,262,687	1,305,309
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(92,112)	147,051	1,282	(29,284)	(488,622)	(461,885)
CASH AND POOLED INVESTMENTS, BEGINNING OF YEAR	546,157	398,134	48,660	210,072	1,457,534	2,660,557
CASH AND POOLED INVESTMENTS, END OF YEAR	\$ 454,045	\$ 545,185	\$ 49,942	\$ 180,788	\$ 968,712	\$ 2,198,672
Cash and pooled investments	\$ 251,876	321,524	\$ 49,942	\$ 172,003	\$ 205,467	\$ 1,000,612
Restricted cash and pooled investments	202,369	223,661	0	8,785	763,245	1,198,060
Total	\$ 454,045	\$ 545,185	\$ 49,942	\$ 180,788	\$ 968,712	\$ 2,198,672
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	\$ (104,688)	\$ 238,384	\$ 4,481	\$ 69,305	\$ (5,415)	\$ 202,067
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities						
Depreciation and amortization	218,573	118,455	12,713	63,871	588,676	1,002,286
Changes in operating assets and liabilities which provided (used) cash:						
Accounts receivable/assessments	(26,867)	30,642	(248)	10,797	(11,843)	2,461
Due from other governmental units	178	0	0	0	0	178
Inventory	0	(24,003)	0	0	1,168	(22,835)
Prepaid expenses	0	(90)	0	1,056	(1,667)	(701)
Accounts payable	(3,396)	(3,680)	0	(5,598)	49,872	37,196
Accrued liabilities	(2,344)	(2,624)	(712)	(1,086)	690	(6,076)
Compensated absences	208	(1,067)	0	3,611	6,282	9,034
Due to other funds	0	0	0	0	0	0
Customer deposits	0	347	220	(395)	(3,632)	(3,460)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 81,644	\$ 356,364	\$ 16,454	\$ 141,561	\$ 624,131	\$ 1,220,154

CITY OF LOWELL
FIDUCIARY FUNDS
STATEMENTS OF NET ASSETS
June 30, 2006

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and pooled investments	\$ 203,526	\$ 149
Investments	1,040,772	0
Accounts Receivable	0	0
Total assets	1,244,298	149
LIABILITIES		
Due to other funds	15,000	0
Due to other governments	0	22
Total Liabilities	15,000	22
NET ASSETS		
Restricted	20,833	0
Unrestricted board designated	1,117,627	0
Unrestricted	90,838	127
Total net assets	\$ 1,229,298	\$ 127

CITY OF LOWELL
PRIVATE PURPOSE TRUSTS
STATEMENT OF CHANGES IN FIDUCIARY
NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Totals</u>
Operating revenues	
Interest and miscellaneous	<u>\$ 133,760</u>
Expenses	
Other functions	<u>102,238</u>
Changes in net assets	<u>31,522</u>
Net assets, beginning of year	<u>1,212,776</u>
Net assets, end of year	<u>\$ 1,244,298</u>

Notes to Financial Statements

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lowell (the "City") was incorporated in 1960, under the provision of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles, as described below, as applicable to governments. The following is a summary of the more significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City. A separate section of the General Purpose Financial Statements provides detailed financial information on the discretely presented component unit.

Restricted Assets

Certain bond and deposit agreements require assets to be set aside for principal, interest repayment and other purposes. These assets are classified as restricted assets on the balance sheet because their use is limited by applicable agreement requirements.

Blended Component Unit

Building Authority – The Building Authority is an entity legally separated from the City. For financial reporting purposes, the Building Authority is reported as if it were part of the City's operations because its purpose is to acquire, construct and equip public buildings on behalf of the City.

The Building Authority is the only blended component unit.

Discretely Presented Component Unit

Downtown Development Authority – The Downtown Development Authority (DDA), was established pursuant to the provisions of Public Act 197 of 1975, and is governed by a nine (9) person Board of Directors appointed by the City Council. All record and minutes are open to the public and can be inspected at the City of Lowell, 301 E. Main Street, Lowell, MI 49331. Separate financial statements are not prepared for the Downtown Development Authority.

The Downtown Development Authority is the only discretely presented component unit.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements except for agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of the following year, the County pays the City for any outstanding real property (excluding personal property) taxes of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be recorded when all eligibility requirements have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service, landfill remediation and compensated absences expenditures are recorded only when payment is due.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *Wastewater Fund* accounts for operation, maintenance and capital improvement of the wastewater system, and retirement of related debt.

The *Water Fund* accounts for operation, maintenance and capital improvement of the wastewater system, and retirement of related debt.

The *Airport Fund* accounts for operation, maintenance and capital improvement of the airport and retirement of related debt.

The *Cable T.V. Fund* accounts for operation, maintenance and capital improvements of the cable television system, and retirement of related debt.

The *Light and Power Fund* accounts for operation, maintenance and capital improvements of the electrical utility system, and retirement of related debt.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for revenue from specific revenue sources (other than capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Capital fund* is used to account for the issuance of the Building Authority bonds and the related construction and renovation projects.

The *Debt Service Funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Internal Service Funds* account for services provided internally to city departments including data processing and equipment rental and repair on a cost reimbursement basis.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The *Permanent Trust Fund* is used to account for the corpus of the cemetery trust which provides funding for cemetery maintenance activities.

The *Trust and Agency Funds* are used to account for assets held by the City in a trustee or agency capacity on behalf of outside parties, including other governments. These include a private purpose trusts and agency funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as a program revenues include: 1) charges to customers or applications for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguished *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for equipment amortization and insurance coverage. Operating expenses for the enterprise funds and internal service funds include wages, supplies, contracted service and depreciation on capital assets. Operating expenses for the internal service funds also include the cost of services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Payables

During the course of the operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Non-current portions of long-term interfund loans receivable in the funds are reported as advances.

Any residual balances outstanding between the governmental activities and business-type activity are reported in the government-wide financial statements as "internal balances."

Allowance for Doubtful Accounts

Lowell Light & Power and Cable enterprise funds have established a reserve for uncollectible customer receivables. The reserve for uncollectible accounts for Light & Power at June 30, 2006 was \$18,367. The reserve for Cable at June 30, 2006 was \$5,463.

Accounts receivables are shown net of allowance for doubtful accounts.

Inventories and Prepaid Items

Inventories are valued at cost on the first-in/first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Payments made to vendors for services that will benefit periods beyond a fund's fiscal year-end recorded as prepaid items in both government-wide and fund financial statements.

Cash and Pooled Investments

For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash equivalents because the investments are not identifiable to specific funds and the assets can be withdrawn at any time, similar to a demand deposit account.

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds which are adopted on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submitted to the city Council, a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings were conducted by the City to obtain taxpayer comments.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

3. By June of each year, the budget is legally enacted through passage of the appropriations act.
4. The City Manager is authorized to make budget transfers to or from any one appropriation category during the fiscal year within dollar limits established by the City Council. The legal level of budgetary control is at the department level.
5. Formal budgetary integration is employed as a management control device during the year. Budget appropriations lapse at year-end.
6. The budgeted amounts presented in these financial statements are final budgets, after amendments on various dates.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added beginning in 2004.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on the capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimate useful lives:

	<u>Years</u>
Buildings.....	30-50
Equipment	5-50
Improvements.....	30-50
Public domain infrastructure	40

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

Funds report *deferred revenues* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the funds were as follows:

Developer advances/Restricted Funds (General Fund)	\$ 50,414
Advance rent payments (Airport)	<u>5,238</u>
	<u><u>\$ 55,652</u></u>

Net Assets/Fund Balance

Reserved fund balance/net assets represent those portions of fund balance/net assets not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as debt service expenditures.

Investments

Investments are stated at fair value in accordance with GASB Statement No. 31.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of other districts within the City limits. Real property taxes not collected are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Payment in Lieu of Property Taxes/Franchise Fees

The Light and Power and Cable Television enterprise funds make payment in lieu of property taxes and franchise fee payments which are recorded as expenses in the enterprise funds and revenues in the general fund.

Accrued Vacation and Sick Leave

All full-time employees are allowed to earn and accumulate sick and vacation pay subject to per employee maximum accumulated hours. These hours vest and are payable upon termination (for police only), retirement or exceeding the maximum hours accrued. Accrued compensated absences are reported in the proprietary fund types and governmental fund types to the extent that they will be liquidated with expendable available financial resources, and the long-term balance payable from governmental funds is recorded on the statement of net assets.

Post-Retirement Health Care Benefits

The City provides postretirement healthcare benefits to all employees who retire from the City and qualify for benefits under the terms of the City's retirement plan. These post-retirement healthcare benefits are limited to a maximum of five years, or attainment of age 65, whichever comes first. Currently seven former employees meet these requirements and received \$43,754 in benefits for the year ended June 30, 2006. These benefits are unfunded and financed on a pay-as-you-go basis. Benefits are treated as expenditures when paid.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the City carried commercial insurance to cover risk of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. The City has not significantly reduced insurance coverage during the past year.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted at the department level.

During the year ended June 30, 2006, the City incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
City Manager	\$ 83,010	\$ 85,566	\$ (2,556)
Library	46,560	50,893	(4,333)
Cemetery	75,851	83,830	(7,979)
Attorney	25,000	30,434	(5,434)
Treasurer	132,883	134,383	(1,500)
City Hall	58,982	69,744	(10,762)
Engineering	6,200	6,638	(438)
Other functions	64,000	76,278	(12,278)
Special Revenue Funds			
Local Street			
Administration	16,839	17,448	(609)
Traffic	7,001	7,540	(539)
Maintenance	54,882	59,273	(4,391)
Interest and fiscal charges	18,318	40,311	(21,993)
Capital Outlay	322,121	324,807	(2,686)
Major Street			
Administration	16,736	17,118	(382)
Maintenance	57,297	60,202	(2,905)
Capital Outlay	32,000	53,117	(21,117)

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

3. DEPOSITS AND INVESTMENTS

The city utilizes various pooled cash accounts and investments for approximately twenty funds. The City's pooled cash accounts consist of a common checking account, savings accounts, certificates of deposit, and investment trust funds.

The City's pooled cash accounts and investments are utilized by the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, and the Trust and Agency Funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents and investments captions on the basic financial statements. The other funds of the City utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit are held separately by several of the City's funds.

Statutory Authority

State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits

As of June 30, 2006, the carrying amounts and bank balances for each type of bank account are as follows:

Account Type	Carrying Amount	Bank Balance
Primary Government	\$ 2,220,930	\$ 2,323,710
Fiduciary Funds	27,031	28,862
Total Reporting Entity	<u>\$ 2,247,961</u>	<u>\$ 2,352,572</u>

Deposits of the city are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2006, the City accounts were insured by the FDIC for \$507,154 and the amount of \$1,845,418 was uninsured and uncollateralized.

Investments

As of June 30, 2006, the fair market value for the investments is as follows:

Investment Type	Primary Government	Fiduciary Funds	Total	Standard & Poor's Rating	Portfolio %
U.S. Government Securities	\$ 1,078,878	\$ 0	\$ 1,078,878	AAA	44.6%
Fed.Home Loan Mortgage Pool (FDMC)	0	452,851	452,851	AAA	18.7%
GNMA Pool	1,306	483,629	484,935	AAA	20.0%
Fed. National Mortgage Pool (FNMA)	0	104,292	104,292	AAA	4.3%
Mutual Fund Accounts	299,515	0	299,515		12.4%
Total	<u>\$ 1,379,699</u>	<u>\$ 1,040,772</u>	<u>\$ 2,420,471</u>		<u>100.0%</u>

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the Kent County Investment Pool total of \$600,898 and the Michigan Public Power Agency Pool amount of \$296,134 are not rated.

Interest Rate Risk

The City has not adopted a policy that indicates how the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The City limits amounts invested in a single security type or with a single financial institution. This indicates how the City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The City has adopted a policy that limits amounts invested with a single financial institution. This will minimize custodial credit risk, which is the risk that in the event of a failure by a counterparty, the City will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet, based on criteria disclosed in Note 1. The following summarizes the categorization of these amounts as of June 30, 2006:

	Governmental Activities	Business- Type Activities	Component Unit DDA	Fiduciary Funds		
				Private Purpose Trust	Agency Funds	Total
Cash and pooled investments	\$ 370,778	\$ 1,000,612	\$ 143,157	\$ 203,526	\$ 149	\$ 1,718,222
Investments	0	1,083,565	0	1,040,772	0	2,124,337
Restricted assets – cash and						
Pooled investments	0	1,198,060	0	0	0	1,198,060
Restricted investments	0	296,134	0	0	0	296,134
	<u>\$ 370,778</u>	<u>\$ 3,578,371</u>	<u>\$ 143,157</u>	<u>\$1,244,298</u>	<u>\$ 149</u>	<u>\$ 5,336,753</u>

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

3. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 568,460	\$ 0	\$ 0	\$ 568,460
Total capital assets, not being depreciated	568,460	0	0	568,460
Capital assets, being depreciated:				
Land improvements	581,280	377,924	0	959,204
Buildings	5,694,000	0	0	5,694,000
Equipments	1,659,124	32,980	(83,350)	1,608,754
Other improvements	75,855	0	0	75,855
Total capital assets, being depreciated	8,010,259	410,904	(83,350)	8,337,813
Less accumulated depreciation for:				
Land improvements	82,235	19,378	0	101,613
Buildings	665,909	105,729	0	771,638
Equipments	1,199,406	107,603	(73,749)	1,233,260
Other improvements	11,401	1,517	0	12,918
Total accumulated depreciation	1,958,951	234,227	(73,749)	2,119,429
Total capital assets, being depreciated, net	6,051,308	176,677	(9,601)	6,218,384
Governmental activities capital assets, net	\$ 6,619,768	\$ 176,677	\$ (9,601)	\$ 6,786,844
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 209,838	\$ 140,000	\$ 0	\$ 349,838
Construction in progress	101,898	517,086	(101,898)	517,086
Total capital assets, not being depreciated	311,736	657,086	(101,898)	866,924
Capital assets, being depreciated:				
Land improvements	343,930	3,456	0	347,386
Buildings	22,836,757	1,346,609	0	24,183,366
Equipments	1,284,622	6,011	0	1,290,633
Other improvements	5,190,157	52,713	0	5,242,870
Total capital assets, being depreciated	29,041,969	1,408,789	0	31,064,255
Less accumulated depreciation for:				
Land improvements	114,220	9,810	0	124,030
Buildings	12,387,575	873,065	0	13,260,640
Equipments	1,144,113	17,947	0	1,162,060
Other improvements	1,593,131	101,466	0	1,694,597
Total accumulated depreciation	14,341,435	1,002,288	0	16,241,327
Total capital assets, being depreciated, net	14,700,534	406,501	0	14,822,928
Business-type activities capital assets, net	\$ 15,012,270	\$ 1,063,587	\$ (101,898)	\$ 15,689,852

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

4. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions / programs of the primary government as follows:

Governmental activities:	
General government	\$ 48,394
Public safety	100,629
Public works	20,768
Public services	51,961
Capital assets held by the government's internal service	
Fund are charged to the various functions based on	
Their usage of the assets	<u>12,474</u>
Total depreciation expense – governmental activities	<u>\$ 234,227</u>

5. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement Systems of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate is from 0% to 10.3% of annual covered payroll depending on position. Participating employees are required to contribute from 0% to 6% to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City Council, depending on the MERS program adopted.

For the year ended June 30, 2006, the City's annual pension cost for MERS of \$236,224 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2006

5. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Municipal Employees Retirement System of Michigan (Continued)

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 214,472	100%	\$ 0
2005	237,240	100%	0
2006	236,224	100%	0

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage Payroll ((b-a)/c)</u>
12/31/03	5,602,806	7,701,238	1,957,322	73%	2,115,495	99%
12/31/04	5,995,203	8,277,043	2,281,840	72%	2,135,880	107%
12/31/05	6,411,153	8,761,561	2,350,408	73%	2,101,193	112%

6. INDIVIDUAL FUND INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivable and payable balances at June 30, 2006 are as follows:

<u>Due from Fund</u>	<u>General Fund</u>
Airport	\$ 15,622
Cable T.V.	828
Light & Power	27,909
Nonmajor	24,013
TOTAL	<u>\$ 68,372</u>

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

7. INDIVIDUAL FUND ADVANCE RECEIVABLES AND PAYABLES

Advances between funds representing long-term receivables and payable between funds at June 30, 2006 are as follows:

<u>Fund</u>	<u>Advance Receivables</u>	<u>Advance Payables</u>
Enterprise Funds:		
Light & Power	\$ 520,123	\$ 0
Cable T.V.	0	520,123
	<u>\$ 520,123</u>	<u>\$ 520,123</u>

8. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2006 are as follows:

	<u>General Fund</u>	<u>Nonmajor</u>	<u>Total</u>
Transfers out:			
General Fund	\$ 0	\$ 364,730	\$ 364,730
Nonmajor	17,639	45,000	62,639
	<u>\$ 17,639</u>	<u>\$ 409,730</u>	<u>\$ 427,369</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

9. LONG-TERM OBLIGATIONS

The following is a summary of debt transactions of the City for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Governmental Long-Term Debt					
Primary Government:					
4.60% - 5.00% Building Authority Bonds, series 1996; payable in annual amounts of \$35,000 to \$160,000 through 2006.	\$ 40,000	\$ 0	\$ 40,000	\$ 0	\$ 0
4.20% - 5.00% Building Authority Bonds, series 1999; payable in annual amounts of \$35,000 to \$65,000 through 2010.	195,000	0	45,000	150,000	45,000
2.00% - 4.80% Transportation Fund Improvement Bonds, series, 2002; payable in annual amounts of \$25,000 to \$45,000 through 2017.	445,000	0	25,000	420,000	25,000
3.25% - 5.12% Building Authority Bonds, series 2002; payable in annual amounts of \$60,000 to \$300,000 through 2032.	4,725,000	0	0	4,725,000	60,000
Municipal Lease--Installment Purchase agreement for police cruisers payable in annual amounts of \$10,919 to \$11,936 through 2007.	22,335	0	10,919	11,416	11,416
3.50%-4.25% Transportation Fund Improvement Bonds, series, 2005; payable in annual amounts of \$15,000 to \$25,000 through 2019.	0	300,000	0	300,000	15,000
Act 99 Installment Purchase, Series 2005 for a fire vehicle in annual amounts of \$16,133 through 2008.	48,400	0	16,134	32,266	16,133
Vested Sick and Vacation pay	66,595	1,239	0	67,834	0
Total Governmental Long-Term Debt	5,542,330	301,239	137,053	5,706,516	172,549

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

9. LONG-TERM OBLIGATIONS (CONTINUED)

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Proprietary Funds					
Enterprise Funds					
Wastewater Fund					
4.40% - 5.40% Sanitary Sewer Systems Revenue Refunding Bonds, series 1993; payable in annual amounts of \$30,000 to \$175,000 through 2012.	1,085,000	0	135,000	950,000	140,000
Light and Power Fund					
3.00% - 5.00% Electric Supply System Revenue Bonds, series 2002; payable in semi-annual amounts of \$130,000 to \$350,000 through 2027.	5,035,000	0	135,000	4,900,000	140,000
Water Fund					
6.25% Special Assessment Water Bonds, series 1993A; payable in annual amounts of \$3,000 to \$10,000 through 2008.	12,000	0	4,000	8,000	4,000
6.30% - 7.50% Special Assessment Water Bonds, series 1994A; payable in annual amounts of \$5,000 to \$10,000 through 2014.	90,000	0	10,000	80,000	10,000
3.00% - 5.00% Water Revenue Refunding Bonds, series 2002; payable in annual amount of \$100,000 to \$195,000 through 2019.	2,105,000	0	135,000	1,970,000	135,000
Airport Fund					
5.50% Michigan Aeronautics Commission Airport Loan, series 2001; payable in annual amounts of \$5,437 to \$8,800 through 2011.	46,391	0	6,735	39,656	7,106
Sub-Total Enterprise Funds	8,373,391	0	425,735	7,947,656	436,106
Unamortized discount/issuance cost	364,887	0	25,924	338,963	0
Total Enterprise Funds	8,008,504	0	399,811	7,608,693	436,106
Total Long-Term Obligations - Primary Government	13,599,835	309,514	536,864	13,372,485	608,655
Component Unit					
5.50% - 6.65% DDA Michigan Municipal Bond Authority, series 1994F; payable in annual amount of \$50,000 to \$100,000.	690,000	0	60,000	630,000	60,000
4.00% - 5.35% DDA General Obligation Limited Tax Development Bonds, series 1999; payable in annual payments of \$55,000 to \$110,000.	795,000	0	70,000	725,000	75,000
Total Component Unit	1,485,000	0	130,000	1,355,000	135,000
Total Long-Term Obligations - Reporting Entity	<u>\$ 15,084,835</u>	<u>\$ 309,514</u>	<u>\$ 666,864</u>	<u>\$ 14,727,485</u>	<u>\$ 743,655</u>

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

9. LONG-TERM OBLIGATIONS (CONTINUED)

The governmental long-term debt is serviced by the general fund except for the transportation bonds which are serviced by the Major Street Fund. Remaining debt is serviced by the funds indicated above.

The annual requirements, excluding accrued employee benefits, to maturity on the total long-term obligations outstanding at June 30, 2006 are as follows:

	Governmental Long-Term Debt		Enterprise Long-Term Debt		Component Unit Long-Term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 172,549	\$ 265,645	\$ 436,106	\$ 359,900	\$ 135,000	\$ 73,886
2008	156,133	259,025	446,497	342,783	150,000	66,165
2009	145,000	253,237	462,909	324,399	155,000	57,767
2010	145,000	357,160	488,344	304,554	165,000	48,795
2011	110,000	131,509	498,800	282,798	80,000	20,615
2012-2016	985,000	1,105,162	1,820,000	1,082,120	670,000	72,253
2017-2021	1,170,000	866,934	1,685,000	722,478	0	0
2022-2026	1,055,000	587,125	1,430,000	355,081	0	0
2027-2031	1,400,000	302,125	680,000	34,500	0	0
2032	300,000	15,375	0	0	0	0
	<u>\$ 5,638,682</u>	<u>\$ 4,143,297</u>	<u>\$ 7,947,656</u>	<u>\$ 3,808,613</u>	<u>\$ 1,355,000</u>	<u>\$ 339,481</u>

The City is a party to certain agreements relating to Industrial Revenue and Economic Development bond issues. The agreements provide that the bonds are self-liquidating revenue bonds and are no obligation to the City. The bonds are collateralized by the assets constructed with bond proceeds and are guaranteed by the recipient corporations. The amount of such bonds outstanding at June 30, 2006, was approximately \$1,615,000.

10. LITIGATION

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

11. JOINT VENTURE

The City entered into a joint venture, the Michigan Public Power Agency (MPPA), with 13 other municipal electric systems. The MPPA was formed to undertake the planning financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the State of Michigan and owns and operates a municipal electric system. Effective in October 2005, the members of the power pool (one of MPPA's programs) gave their required five year notice of withdrawal from the pool which will cease on December 31, 2010. Lowell Light and Power is currently in negotiations along with other members of the pool to form a new contract for the sale and purchase of power. Complete financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way, Lansing, Michigan 48917.

Under the joint venture, the City has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the City to purchase from MPPA 1.24% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No.1, which became operational in August 1984, 11.86% of MPPA's 4.80% ownership in Consumers Energy's Campbell Unit No. 3, which became operational in September 1980 and 5.63% of the energy generated by MPPA's 100% ownership in CT Project No. 1 (50 mw rated simple cycle combustion turbine generating unit and ancillary support facilities located in Kalkaska, Michigan) which became operational in 2004. These contracts required the City to purchase approximately 3, 4.5 and 2.8 megawatts of power, respectively.

For the year ended June 30, 2006, the City recognized expenses totaling \$2,824,078 under the terms of the contract which represented \$653,400 for fixed operating costs, \$923,378 for debt service and \$1,247,300 for the purchase of power. Accounts payable to MPPA totaled \$383,871 at June 30, 2006. Under the terms of its contracts, the City must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1, Consumers Energy's Campbell Unit No. 3 and CT Project No. 1. Future operating costs are estimated based on 2006 costs adjusted for inflation.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2006

11. JOINT VENTURE (CONTINUED)

A summary of future contract payments with MPPA is as follows:

	Belle River		Campbell		Combustion Turbine		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2007	340,901	268,149	439,499	329,070	143,626	75,783	1,597,028
2008	340,948	276,194	439,813	338,942	143,776	78,057	1,617,730
2009	340,905	284,480	439,710	349,110	143,634	80,398	1,638,237
2010	340,911	293,014	358,507	359,583	143,672	82,810	1,578,497
2011	340,962	301,804	360,547	370,371	143,877	85,295	1,602,856
2012-2016	1,704,667	1,650,390	723,965	774,408	718,506	466,426	6,038,362
2017-2021	681,891	731,552	0	0	718,645	540,715	2,672,803
2022-2026	0	0	0	0	718,681	626,837	1,345,518
2027	0	0	0	0	143,695	136,873	280,568
	<u>\$ 4,091,185</u>	<u>\$ 3,805,583</u>	<u>\$ 2,762,041</u>	<u>\$ 2,521,484</u>	<u>\$ 3,018,112</u>	<u>\$ 2,173,194</u>	<u>\$ 18,371,599</u>

Debt Service requirements expire in the years 2013, 2018 and 2027 for the Campbell, Belle River and Combustion Turbine Projects, respectively. The above amounts include estimated fixed operating costs for the same period as the Debt Service. The contracts for the City's commitment for fixed operating costs to extend beyond these dates are dependent upon the use of the facilities.

The joint venture is a result of an ongoing financial responsibility. The City did not have an initial equity interest and does not participate in net income or losses.

12. PRIOR PERIOD ADJUSTMENTS

Beginning net assets has been increased in the Equipment fund by \$5,106 to reflect a decrease in compensated absences at June 30, 2005. Beginning net assets has been increased in the Light and Power fund by \$56,383 to reflect a decrease in compensated absences at June 30, 2005. Beginning net assets in the Cable Television fund has been increased by \$5,049 to reflect a \$21,041 decrease in accounts receivable and a \$26,090 decrease in compensated absences at June 30, 2005. Beginning net assets has been increased in the Wastewater fund by \$5,700 to reflect a decrease in compensated absences at June 30, 2005. Beginning net assets has been increased in the Water fund by \$17,064 to reflect a decrease in compensated absences at June 30, 2005. Beginning net assets has been increased in the governmental activities by \$52,713 to reflect a decrease in compensated absences at June 30, 2005.

Notes to Financial Statements

CITY OF LOWELL
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
TAXES			
Property taxes	\$ 1,379,825	\$ 1,377,695	\$ (2,130)
Payment in lieu of taxes	215,054	233,034	17,980
Penalties and interest	5,000	8,649	3,649
Trailer fees	900	857	(43)
Industrial facility tax	12,300	12,247	(53)
TOTAL TAXES	1,613,079	1,632,482	19,403
INTERGOVERNMENTAL			
FEDERAL REVENUE	0	405	405
STATE REVENUE			
Sales tax	414,285	405,384	(8,901)
Liquor licenses	3,000	3,354	354
Other	9,400	11,744	2,344
TOTAL STATE REVENUE	426,685	420,482	(6,203)
CHARGES FOR SERVICES			
Fire protection	80,000	80,580	580
Cemetery openings	8,000	12,225	4,225
Other charges and fees	38,937	45,829	6,892
TOTAL CHARGES FOR SERVICES	126,937	138,634	11,697
INVESTMENT INCOME	16,100	17,310	1,210
OTHER INCOME			
Sales-other	47,815	56,698	8,883
Contributions/local grants	23,241	39,015	15,774
Miscellaneous	178,287	190,177	11,890
TOTAL OTHER INCOME	249,343	285,890	36,547
TOTAL REVENUES	2,432,144	2,495,203	63,059
EXPENDITURES			
General Government			
Legislative Council	17,070	15,325	1,745
Administrative			
City Manager	83,010	85,566	(2,556)
Elections	6,090	5,060	1,030
Attorney	25,000	30,434	(5,434)
Assessor	38,413	37,478	935
General office	133,970	127,682	6,288
Treasurer	132,883	134,383	(1,500)
Library	46,560	50,893	(4,333)
Planning	14,450	13,070	1,380
TOTAL ADMINISTRATIVE	480,376	484,566	(4,190)
TOTAL GENERAL GOVERNMENT	497,446	499,891	(2,445)

CITY OF LOWELL
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
EXPENDITURES (continued)			
Public Safety			
Police	856,203	855,712	491
Fire	169,500	175,950	(6,450)
Ambulance	2,000	2,000	0
TOTAL PUBLIC SAFETY	1,027,703	1,033,662	(5,959)
Public Services			
City Hall	58,982	69,744	(10,762)
Public works	150,920	138,026	12,894
Cemetery	75,851	83,830	(7,979)
Engineering	6,200	6,638	(438)
Parks	123,572	122,571	1,001
Refuse collection	75,000	79,371	(4,371)
Sidewalks	13,379	10,719	2,660
TOTAL PUBLIC SERVICES	503,904	510,899	(6,995)
Debt Service			
Principal	14,610	16,134	(1,524)
Interest	0	1,250	(1,250)
TOTAL DEBT SERVICE	14,610	17,384	(2,774)
Other functions			
Other services and charges	64,000	76,278	(12,278)
TOTAL EXPENDITURES	2,107,663	2,138,114	(30,451)
REVENUES OVER (UNDER) EXPENDITURES	324,481	357,089	32,608
OTHER FINANCING SOURCES (USES)			
Transfers in	17,000	17,639	639
Transfers (out)	(334,730)	(364,730)	(30,000)
TOTAL OTHER FINANCING SOURCES (USES)	(317,730)	(347,091)	(29,361)
NET CHANGE IN FUND BALANCES	<u>\$ 6,751</u>	9,998	<u>\$ 3,247</u>
FUND BALANCES, BEGINNING OF YEAR		29,468	
FUND BALANCES, END OF YEAR		<u>\$ 39,466</u>	

CITY OF LOWELL

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET

June 30, 2006

ASSETS

	SPECIAL REVENUE			CAPITAL PROJECTS	DEBT SERVICE	PERMANENT Cemetery Perpetual Care	Total
	Major Streets	Local Streets	Historic District Commission				
Cash and pooled investments	\$ 29,512	\$ 11,070	\$ 55,806	0	\$ 4,230	\$ 263,886	\$ 364,504
Due from other governments	31,036	11,899	0	0	0	0	42,935
Total Assets	\$ 60,548	\$ 22,969	\$ 55,806	0	\$ 4,230	\$ 263,886	\$ 407,439

LIABILITIES & FUND BALANCE

Liabilities							
Accounts payable	\$ 29,618	\$ 589	\$ 0	0	\$ 0	0	\$ 30,207
Accrued liabilities	952	1,514	0	0	0	0	2,466
Due to other funds	0	20,000	0	0	0	4,013	24,013
Accrued compensated absences	127	112	0	0	0	0	239
Total liabilities	30,697	22,215	0	0	0	4,013	56,925
Fund balance							
Reserved	0	0	0	0	4,230	259,873	264,103
Unreserved - undesignated	29,851	754	55,806	0	0	0	86,411
Total fund balance	29,851	754	55,806	0	4,230	259,873	350,514
Total liabilities and fund equity	\$ 60,548	\$ 22,969	\$ 55,806	\$ 0	\$ 4,230	\$ 263,886	\$ 407,439

CITY OF LOWELL

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE			CAPITAL PROJECTS		DEBT SERVICE		PERMANENT		Total
	Major Streets	Local Streets	Historic District Commission	Capital Projects	Debt Service	Cemetery Perpetual Care				
Revenues										
Intergovernmental revenues										
State	\$ 190,308	\$ 100,101	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 290,409	
Investment income	3,212	2,416	1,223	0	173	4,013	4,013	4,013	11,037	
Charges for perpetual care	0	0	0	0	0	11,638	11,638	11,638	11,638	
Miscellaneous/Contributions	5,016	1,173	25,000	0	0	0	0	0	31,189	
Total revenues	198,536	103,690	26,223	0	173	15,651	15,651	15,651	344,273	
Expenditures										
Current										
Highways and streets	112,631	101,896	0	0	0	0	0	0	214,527	
Public service	0	0	25,844	0	0	0	0	0	25,844	
Other functions	0	0	0	0	0	547	547	547	547	
Debt service:										
Principal	0	25,000	0	0	85,000	0	0	0	110,000	
Interest and fiscal charges	0	40,311	0	0	236,273	0	0	0	276,584	
Capital outlay	53,117	324,807	0	0	0	0	0	0	377,924	
Total expenditures	165,748	492,014	25,844	0	321,273	547	547	547	1,005,426	
Revenues over (under) expenditures	32,788	(388,324)	379	0	(321,100)	15,104	15,104	15,104	(661,153)	
Other financing sources (uses)										
Proceeds from loan	0	300,000	0	0	0	0	0	0	300,000	
Transfers in	0	85,000	0	0	324,730	0	0	0	409,730	
Transfers out	(45,000)	0	0	(13,626)	0	(4,013)	(4,013)	(4,013)	(62,639)	
Total other financing sources (uses)	(45,000)	385,000	0	(13,626)	324,730	(4,013)	(4,013)	(4,013)	647,091	
Net changes in fund balances	(12,212)	(3,324)	379	(13,626)	3,630	11,091	11,091	11,091	(14,062)	
Fund balances, beginning of year	42,063	4,078	55,427	13,626	600	248,782	248,782	248,782	364,576	
Fund balances, end of year	\$ 29,851	\$ 754	\$ 55,806	\$ 0	\$ 4,230	\$ 259,873	\$ 259,873	\$ 259,873	\$ 350,514	

See accompanying notes to financial statements.

CITY OF LOWELL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
MAJOR STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES			
Intergovernmental revenues:			
State	\$ 194,300	\$ 190,308	\$ (3,992)
Investment income	1,200	3,212	2,012
Miscellaneous	<u>4,706</u>	<u>5,016</u>	<u>310</u>
TOTAL REVENUES	<u>200,206</u>	<u>198,536</u>	<u>(1,670)</u>
EXPENDITURES			
Current			
Administration	16,736	17,118	(382)
Winter maintenance	23,592	19,554	4,038
Traffic	17,791	15,757	2,034
Maintenance	57,297	60,202	(2,905)
Capital outlay	<u>32,000</u>	<u>53,117</u>	<u>(21,117)</u>
TOTAL EXPENDITURES	<u>147,416</u>	<u>165,748</u>	<u>(18,332)</u>
REVENUES OVER (UNDER) EXPENDITURES	52,790	32,788	(20,002)
OTHER FINANCING SOURCES (USES)			
Transfers (out)	<u>(45,000)</u>	<u>(45,000)</u>	<u>0</u>
NET CHANGES IN FUND BALANCES	<u>\$ 7,790</u>	(12,212)	<u>\$ (20,002)</u>
FUND BALANCES, BEGINNING OF YEAR		<u>42,063</u>	
FUND BALANCES, END OF YEAR		<u>\$ 29,851</u>	

CITY OF LOWELL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
LOCAL STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES			
Intergovernmental revenues:			
State	\$ 76,271	\$ 100,101	\$ 23,830
Investment income	50	2,416	2,366
Miscellaneous	<u>45,329</u>	<u>1,173</u>	<u>(44,156)</u>
TOTAL REVENUES	<u>121,650</u>	<u>103,690</u>	<u>(17,960)</u>
EXPENDITURES			
Current			
Administration	16,839	17,448	(609)
Winter maintenance	21,537	17,635	3,902
Traffic	7,001	7,540	(539)
Maintenance	54,882	59,273	(4,391)
Debt service:			
Principal	25,000	25,000	0
Interest and fiscal charges	18,318	40,311	(21,993)
Capital outlay	<u>322,121</u>	<u>324,807</u>	<u>(2,686)</u>
TOTAL EXPENDITURES	<u>465,698</u>	<u>492,014</u>	<u>(26,316)</u>
REVENUES OVER (UNDER) EXPENDITURES	(344,048)	(388,324)	(44,276)
OTHER FINANCING SOURCES (USES)			
Proceeds from loan	300,000	300,000	0
Transfers in	<u>55,000</u>	<u>85,000</u>	<u>30,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>355,000</u>	<u>385,000</u>	<u>30,000</u>
NET CHANGES IN FUND BALANCES	<u>\$ 10,952</u>	(3,324)	<u>\$ (14,276)</u>
FUND BALANCES, BEGINNING OF YEAR		<u>4,078</u>	
FUND BALANCES, END OF YEAR		<u>\$ 754</u>	

CITY OF LOWELL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
HISTORIC DISTRICT COMMISSION FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES			
Investment income	\$ 1,223	\$ 1,223	\$ 0
Miscellaneous	<u>25,000</u>	<u>25,000</u>	<u>0</u>
TOTAL REVENUES	<u>26,223</u>	<u>26,223</u>	<u>0</u>
EXPENDITURES			
Current			
Public services	<u>25,844</u>	<u>25,844</u>	<u>0</u>
TOTAL EXPENDITURES	<u>25,844</u>	<u>25,844</u>	<u>0</u>
NET CHANGES IN FUND BALANCES	<u>\$ 379</u>	379	<u>\$ 0</u>
FUND BALANCES, BEGINNING OF YEAR		<u>55,427</u>	
FUND BALANCES, END OF YEAR		<u>\$ 55,806</u>	

CITY OF LOWELL
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF NET ASSETS

June 30, 2006

ASSETS	Data Processing	Equipment	Total
Current assets			
Cash and pooled investments	\$ 6,274	\$ 0	\$ 6,274
Accounts receivable	0	7,010	7,010
Inventory	0	8,052	8,052
Total current assets	6,274	15,062	21,336
Capital assets			
Machinery and equipment	145,227	663,468	808,695
Less:			
Accumulated depreciation	(143,764)	(654,598)	(798,362)
Net capital assets	1,463	8,870	10,333
Total assets	7,737	23,932	31,669
LIABILITIES			
Current liabilities			
Accounts payable	241	0	241
Accrued liabilities	0	2,023	2,023
Accrued compensated absences	0	2,583	2,583
Total liabilities	241	4,606	4,847
NET ASSETS			
Invested in capital assets, net of related debt	1,463	8,870	10,333
Unrestricted	6,033	10,456	16,489
Total net assets	\$ 7,496	\$ 19,326	\$ 26,822

CITY OF LOWELL

INTERNAL SERVICE FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Data Processing</u>	<u>Equipment</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 15,040	\$ 152,386	\$ 167,426
Miscellaneous income	0	175	175
Total operating revenues	<u>15,040</u>	<u>152,561</u>	<u>167,601</u>
Operating expenses			
Personnel services	0	88,200	88,200
Supplies	2,578	35,114	37,692
Services and other charges	39,795	20,665	60,460
Depreciation and amortization	1,598	10,876	12,474
Miscellaneous	73	0	73
Total operating expenses	<u>44,044</u>	<u>154,855</u>	<u>198,899</u>
Operating income (loss)	<u>(29,004)</u>	<u>(2,294)</u>	<u>(31,298)</u>
Non-operating revenues (expenses)			
Interest income	1,207	57	1,264
Income (loss) before transfers	<u>(27,797)</u>	<u>(2,237)</u>	<u>(30,034)</u>
Transfers to other funds	<u>(15,000)</u>	<u>0</u>	<u>(15,000)</u>
Change in net assets	<u>(42,797)</u>	<u>(2,237)</u>	<u>(45,034)</u>
Net assets, beginning of year*	<u>50,293</u>	<u>21,563 *</u>	<u>71,856 *</u>
Net assets, end of year	<u><u>\$ 7,496</u></u>	<u><u>\$ 19,326</u></u>	<u><u>\$ 26,822</u></u>

*-restated

CITY OF LOWELL
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>DATA PROCESSING</u>	<u>EQUIPMENT</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund services provided	\$ 15,086	\$ 150,577	\$ 165,663
Payments to suppliers	(42,205)	(63,031)	(105,236)
Payments to employees	<u>0</u>	<u>(87,603)</u>	<u>(87,603)</u>
Net cash provided by (used in) operating activities	<u>(27,119)</u>	<u>(57)</u>	<u>(27,176)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING			
Due to other funds	0	0	0
Transfer to other funds	(15,000)	0	(15,000)
Due from other funds	<u>0</u>	<u>0</u>	<u>0</u>
Net cash provided by (used in) non-capital financing	<u>(15,000)</u>	<u>0</u>	<u>(15,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	<u>1,207</u>	<u>57</u>	<u>1,264</u>
NET INCREASE (DECREASE) IN CASH AND POOLED INVESTMENTS	(40,912)	0	(40,912)
CASH AND POOLED INVESTMENTS, BEGINNING OF YEAR	<u>47,186</u>	<u>0</u>	<u>47,186</u>
CASH AND POOLED INVESTMENTS, END OF YEAR	<u><u>\$ 6,274</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 6,274</u></u>
 Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (29,004)	\$ (1,974)	\$ (30,978)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	1,598	10,876	12,474
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	46	(1,984)	(1,938)
Inventory	0	12,667	12,667
Accounts payable	241	(19,919)	(19,678)
Accrued liabilities	<u>0</u>	<u>277</u>	<u>277</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u><u>\$ (27,119)</u></u>	<u><u>\$ (57)</u></u>	<u><u>\$ (27,176)</u></u>

CITY OF LOWELL

PRIVATE PURPOSE TRUSTS COMBINING STATEMENTS OF NET ASSETS

June 30, 2006

ASSETS	Carr	Lee	Look - Daley	Carr II	Total
Cash and pooled investments	\$ 23,026	\$ 6,351	\$ 103,236	\$ 70,913	\$ 203,526
Investments	0	205,201	835,571	0	1,040,772
Accounts Receivable	0	0	0	0	0
Total assets	23,026	211,552	938,807	70,913	1,244,298
LIABILITIES					
Due to other funds	0	0	15,000	0	15,000
Total Liabilities	0	0	15,000	0	15,000
NET ASSETS					
Restricted	20,833	0	0	0	20,833
Unrestricted board designated	0	201,194	845,520	70,913	1,117,627
Unrestricted	2,193	10,358	78,287	0	90,838
Total net assets	\$ 23,026	\$ 211,552	\$ 923,807	\$ 70,913	\$ 1,229,298

CITY OF LOWELL

PRIVATE PURPOSE TRUSTS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2006

	Carr	Lee	Look - Daley	Carr II	Total
Operating revenues					
Interest and miscellaneous	\$ 724	\$ 12,054	\$ 50,069	\$ 70,913	\$ 133,760
Expenses					
Other functions	907	28,089	73,242	0	102,238
Income before transfers	<u>(183)</u>	<u>(16,035)</u>	<u>(23,173)</u>	<u>70,913</u>	<u>31,522</u>
Other financing sources (uses)					
Transfers in	0	0	0	0	0
Transfers out	0	0	(15,000)	0	(15,000)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>(15,000)</u>	<u>0</u>	<u>(15,000)</u>
Changes in net assets	<u>(183)</u>	<u>(16,035)</u>	<u>(38,173)</u>	<u>70,913</u>	<u>16,522</u>
Net assets, beginning of year	23,209	227,587	961,980	0	1,212,776
Net assets, end of year	<u>\$ 23,026</u>	<u>\$ 211,552</u>	<u>\$ 938,807</u>	<u>\$ 70,913</u>	<u>\$ 1,244,298</u>

CITY OF LOWELL

AGENCY FUNDS COMBINING STATEMENTS OF NET ASSETS

June 30, 2006

ASSETS	Current Tax	Trailways	Total
Cash and pooled investments	\$ 22	\$ 127	\$ 149
Total assets	22	127	149
LIABILITIES			
Due to other governments	22	0	22
Total Liabilities	22	0	22
NET ASSETS			
Restricted	0	0	0
Unrestricted board designated	0	0	0
Unrestricted	0	127	127
Total net assets	\$ 0	\$ 127	\$ 127

See accompanying notes to financial statements.

CITY OF LOWELL

DOWNTOWN DEVELOPMENT AUTHORITY COMBINING STATEMENTS OF NET ASSETS

June 30, 2006

ASSETS	General Fund	Adjustments	Statement of Net Assets
Cash and pooled investments	143,157	\$ 0	\$ 143,157
Capital assets			
Land	0	67,876	67,876
Property, Plant, Equipment	0	863,185	863,185
Total Assets	\$ 143,157	931,061	1,074,218

LIABILITIES & FUND BALANCE

Liabilities			
Accounts payable	\$ 645	0	645
Accrued liabilities	0	3,248	3,248
Bonds payable short-term	0	135,000	135,000
Bonds payable long-term	0	1,220,000	1,220,000
Total liabilities	645	1,358,248	1,358,893
Fund balance			
Fund balance - undesignated	142,512	(142,512)	0
Total liabilities and fund equity	\$ 143,157	1,215,736	1,358,893

NET ASSETS

Invested in capital assets, net of related debt	(423,939)	(423,939)
Unrestricted	139,264	139,264
Total net assets (deficit)	\$ (284,675)	\$ (284,675)

CITY OF LOWELL
DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES/NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>GENERAL FUND</u>	<u>ADJUSTMENTS</u>	<u>STATEMENT OF NET ASSETS</u>
REVENUES			
Taxes	\$ 489,189	\$ 0	\$ 489,189
Interest	7,941	0	7,941
Other	1,016	0	1,016
TOTAL REVENUES	<u>498,146</u>	<u>0</u>	<u>498,146</u>
EXPENDITURES			
General Government	233,634	30,216	263,850
Debt service:			
Principal retirement	130,000	(130,000)	0
Interest and fiscal charges	80,925	(302)	80,623
Capital outlay	10,963	(10,963)	0
TOTAL EXPENDITURES	<u>455,522</u>	<u>(111,049)</u>	<u>344,473</u>
REVENUES OVER (UNDER) EXPENDITURES	42,624	(42,624)	0
NET CHANGE IN FUND BALANCE NET ASSETS	0	153,673	153,673
FUND BALANCE/NET ASSETS, BEGINNING OF YEAR	99,888	(538,236)	(438,348)
FUND BALANCE/NET ASSETS, END OF YEAR	<u>\$ 142,512</u>	<u>\$ (427,187)</u>	<u>\$ (284,675)</u>

**Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards**

Honorable Mayor and
Members of the City Council
Lowell, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Lowell, Michigan, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Lowell, Michigan's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclose no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lowell, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matter involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Biggs, Hausserman, Thompson & Dickinson

Biggs, Hausserman, Thompson & Dickinson, P.C.
Certified Public Accountants
October 19, 2006